

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Mike Strawn	President	2006
Dave Scott	Vice-President	2007
Robert Thomas	Board Member	2008
Connie Allen	Board Member	2008
Steve Edwards	Board Member (appointed)	2006
Leroy Kivett	Board Member (resigned)	2006

Board of Education (After September 2006 Election)		
Mike Strawn	President	2009
Robert Thomas	Vice-President	2008
Dave Scott	Board Member	2007
Connie Allen	Board Member	2008
Steve Edwards	Board Member	2009

School Officials		
Dr. Alan Meyer	Superintendent	2007
Nancy Burchland	Business Manager	2007
Cartwright, Druker And Ryden	Attorney	2007

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Marshall Community School District, Gilman, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

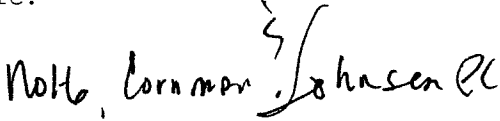
In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2008 on our consideration of East Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,018,627 in fiscal 2006 to \$7,310,956 in fiscal 2007, while General Fund expenditures increased from \$6,789,807 in fiscal 2006 to \$7,286,797 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$1,023,548 in fiscal 2006 to \$1,048,757 in fiscal 2007, a 2.46% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in tuition and state sources in fiscal 2007. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- As of June 30, 2007, the District's solvency ratio is 14.2% as compared to 14.5% for the previous year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Marshall Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Marshall Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Marshall Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
East Marshall Community School District Annual Financial Report

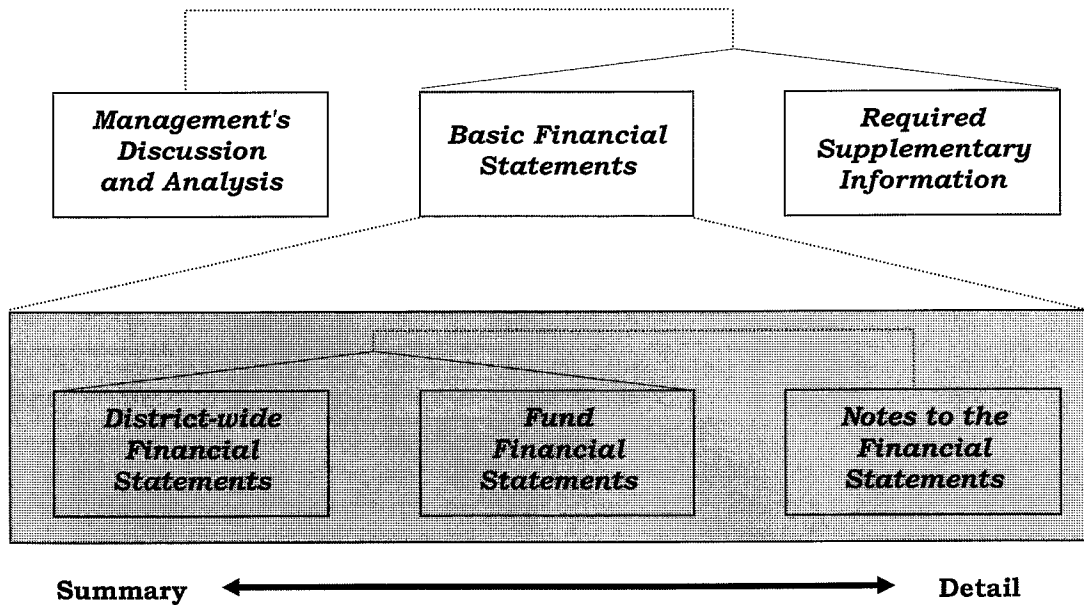


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 6,716,480	10,805,625	88,308	84,169	6,804,788	10,889,794	-37.51%
Capital assets	8,078,896	3,683,957	18,851	22,512	8,097,747	3,706,469	118.48%
Total assets	14,795,376	14,489,582	107,159	106,681	14,902,535	14,596,263	2.10%
Long-term obligations	6,178,563	6,012,964	0	0	6,178,563	6,012,964	2.75%
Other liabilities	3,585,376	4,086,257	36,334	32,365	3,621,710	4,118,622	-12.07%
Total liabilities	9,763,939	10,099,221	36,334	32,365	9,800,273	10,131,586	-3.27%
Net assets:							
Invested in capital assets, net of related debt	3,284,525	3,524,657	18,851	22,512	3,303,376	3,547,169	-6.87%
Restricted	1,322,569	351,370	0	0	1,322,569	351,370	276.40%
Unrestricted	424,343	514,334	51,974	51,804	476,317	566,138	-15.87%
Total net assets	\$ 5,031,437	4,390,361	70,825	74,316	5,102,262	4,464,677	14.28%

The District's combined net assets increased by 14.28%, or \$637,585, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$971,199, or 276.40% under the prior year. This dramatic increase is due to a change in the way restricted assets are calculated as compared to the previous year. In previous years, the balance of the Capital Projects Fund as well as the balance of the Debt Service Fund was added back to the invested in capital assets net of related debt. Beginning this year, the fund balances for these two funds is considered a restricted balance unless the District has construction in progress, then the balance of the bond proceeds construction account would be added back to the invested in capital assets net of related debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$89,821, or 15.87%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,370,511	1,313,613	182,650	163,993	1,553,161	1,477,606	5.11%
Operating grants, contributions and restricted interest	864,284	1,039,656	149,843	155,580	1,014,127	1,195,236	-15.15%
Capital grants, contributions and restricted interest	165,256	0	0	0	165,256	0	100.00%
General revenues:							
Local tax	2,726,055	2,754,256	0	0	2,726,055	2,754,256	-1.02%
Local option sales and services tax	415,180	401,555	0	0	415,180	401,555	3.39%
Unrestricted state grants	2,852,761	2,770,976	0	0	2,852,761	2,770,976	2.95%
Other	346,421	314,510	2,317	1,313	348,738	315,823	10.42%
Transfers	(210)	0	0	0	(210)	0	-100.00%
Total revenues	8,740,258	8,594,566	334,810	320,886	9,075,068	8,915,452	1.79%
Program expenses:							
Governmental activities:							
Instruction	4,776,591	4,541,674	0	0	4,776,591	4,541,674	5.17%
Support services	2,677,785	2,687,550	4,080	0	2,681,865	2,687,550	-0.21%
Non-instructional programs	5,737	7,444	334,221	338,254	339,958	345,698	-1.66%
Other expenses	639,069	517,647	0	0	639,069	517,647	23.46%
Total expenses	8,099,182	7,754,315	338,301	338,254	8,437,483	8,092,569	4.26%
Change in net assets	641,076	840,251	(3,491)	(17,368)	637,585	822,883	-22.52%
Beginning net assets	4,390,361	3,550,110	74,316	91,684	4,464,677	3,641,794	22.60%
Ending net assets	\$ 5,031,437	4,390,361	70,825	74,316	5,102,262	4,464,677	14.28%

In fiscal 2007, property tax and unrestricted state grants account for 63.83% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.31% of the revenue from business type activities.

The District's total revenues were approximately \$9.08 million of which \$8.74 million was for governmental activities and slightly less than \$0.34 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.79% in revenues and a 4.26% increase in expenses. The increase in expenses was related to increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$8,740,258 and expenses were \$8,099,182. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 4,776,591	4,541,674	5.17%	2,785,328	2,413,420	15.41%
Support services	2,677,785	2,687,550	-0.36%	2,669,957	2,681,487	-0.43%
Non-instructional	5,737	7,444	-22.93%	5,737	7,444	-22.93%
Other expenses	639,069	517,647	23.46%	238,109	298,695	-20.28%
Totals	<u>\$ 8,099,182</u>	<u>7,754,315</u>	<u>4.45%</u>	<u>5,699,131</u>	<u>5,401,046</u>	<u>5.52%</u>

- The cost financed by users of the District's programs was \$1,370,511.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,029,540.
- The net cost of governmental activities was financed with \$2,726,055 in property tax, \$415,180 in local option sales and services tax, \$2,852,761 in unrestricted state grants and \$240,274 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$334,810 and expenses were \$338,301. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Marshall Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,898,149, below last year's ending fund balances of a \$6,472,858. However, the primary reason for the decrease in ending fund balance is a result of construction costs from the middle school building project.

Governmental Fund Highlights

The District's improving General Fund financial position is the product of many factors:

- Open enrollments into the district continued to increase in 2006-07 resulting in a revenue increase of \$138,046.
- State funding of Teacher Quality Initiatives has increased from \$114,300 in 2005-06 to \$168,506 in 2006-07 and will increase to \$258,657 in 2007-08. These revenues are used to raise teacher salaries to state required minimums with the remainder distributed equally to all teachers. These funds account for increases in both revenues and expenditures.
- Interest revenue increased due to improving interest rates and increased cash balance.

Other Governmental Funds:

- On July 27, 2007, the high school addition construction project was considered substantially complete and the District was able to occupy the building. The addition included a gym, commons area, kitchen, vocational technology, vocal and instrumental music classrooms. The new construction will add 27,975 square feet to the high school.
- The bond issue approved on April 26, 2005, for the construction of an addition to the existing high school also included the renovation of the existing high school. The District will use any excess funds in the Capital Projects Fund to complete this renovation.
- The fund balance in the Schools Infrastructure Local Option (SILO) Sales Tax Fund increased in 2006-07 due to higher sales tax and accumulating interest on the fund balance. The district is using the sales tax revenue to abate property taxes in the Debt Service Levy. The Board continues to hold the property tax rate in the Debt Service Fund at .35/1000 with the remainder being paid with SILO funds.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$74,316 at June 30, 2006 to \$70,825 at June 30, 2007, representing a decrease of 4.70%. Although revenues increased and expenses stayed relatively the same as compared to 2006, the increase was not enough for revenues to exceed expenditures thus ensuring the decline in fund balance.

- The District raised the price charged for meals in the 2006-07 school year to offset the Nutrition Fund's declining fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$48,141 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$8,097,747, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 118.48% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$254,784.

The original cost of the District's capital assets was \$12,243,020. Governmental funds account for \$12,109,775 with the remainder of \$133,245 in the Proprietary funds.

The largest change in capital asset activity during the year occurred construction in progress category. The District's construction in progress totaled \$1,292,282 at June 30, 2006, compared to \$5,824,427 at June 30, 2007. The rise in construction in progress is due to the continuing construction project at the middle school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 115,374	115,374	0	0	115,374	115,374	0.00%
Construction in progress	5,824,427	1,292,282	0	0	5,824,427	1,292,282	350.71%
Buildings	1,669,253	1,742,681	0	0	1,669,253	1,742,681	-4.21%
Land improvements	89,524	78,949	0	0	89,524	78,949	13.39%
Machinery and equipment	380,318	454,671	18,851	22,512	399,169	477,183	-16.35%
Total	\$ 8,078,896	3,683,957	18,851	22,512	8,097,747	3,706,469	118.48%

Long-Term Debt

At June 30, 2007, the District had \$6,178, 563 in long-term debt outstanding. This represents an increase of 2.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had general obligation bonds payable of \$5,005,000 at June 30, 2007.

During the year ended June 30, 2007, the District issued \$490,000 in energy loan notes. These notes will be paid from the General Fund with the savings experienced from the upgrades that will be made. The first payment of principal and interest for the energy loan notes will be due during fiscal 2008.

The District had compensated absences payable of \$50,455 at June 30, 2007.

The District had early retirement payable of \$633,108 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 5,005,000	5,190,000	-3.6%
Energy loan notes	490,000	0	100.0%
Early retirement	633,108	780,124	-18.8%
Compensated absences	50,455	42,840	17.8%
Totals	\$ 6,178,563	6,012,964	2.8%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- On February 12, 2007, the Board started discussing the possibility of closing one of the District's school buildings. Public hearings were held and a consultant was hired to analyze the educational program and facilities. The consultant's report was presented in July 2007 with a recommendation to phase out the Ferguson facility as an attendance center, to expand the LeGrand campus and to upgrade the Gilman and Laurel facilities.
- On July 9, 2007, the Board received a recommendation from John Lott, an architect with Benjamin Design Collaborative, that the Ferguson school building no longer be used as a school building until structural repairs are made. The Board voted to not make the structural repairs to the Ferguson building on July 16, 2007 and formally closed the Ferguson facility on July 30, 2007. The two grades located at the Ferguson facility were moved to the school building in Laurel for the 2007-08 school year, but space considerations were an issue that would need to be addressed in the future.
- The District applied for and received a grant from the state to start a 4-year old preschool program in the 2007-08 school year. The City of Gilman agreed to relinquish ownership of a property in Gilman that had previously been used to house a community preschool. The City of Gilman deeded the building to the District on July 11, 2007. The District made improvements to the building and 38 preschool students were enrolled for the 2007-08 school year. State funding for the preschool will continue in future years through the school finance formula.
- The instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. On July 10, 2006, the board adopted a resolution to continue participation in the instructional support program for an additional five-year period through June 30, 2012.

Fiscal Year	Instructional Support Levy	ISL State Aid	Income Surtax	Property Tax
2007-08	\$317,699	\$26,690	\$260,620	\$30,389
2006-07	\$316,157	\$27,797	\$273,019	\$15,341
2005-06	\$318,391	\$29,809	\$278,567	\$10,015
2004-05	\$322,049	\$31,732	\$282,711	\$7,606
2003-04	\$329,366	\$34,096	\$263,457	\$31,813

- The District's certified enrollment decreased by almost 35 students in 2007. This decrease will make the District eligible for the budget guarantee of 101% of the FY08 Regular Program District Cost.
- The District continues to have increasing open enrolled students. In 2006-07 open enrollment revenues were \$1,095,299

Fiscal Year	Enrolled In	Enrolled Out
2007-2008	202	45.6
2006-2007	193	49.7
2005-2006	181	50.8
2004-2005	140	43.5
2003-2004	120	43.7

- Property tax values continue to increase slightly. The PPEL and PERL levies, fixed dollar levies, will generate more dollars because of the increased valuation. Increasing valuations allow the District to lower the property tax rate for the General Fund, Management Fund, and Debt Service Fund.
- On February 1, 2007, the District issued \$490,000 of General Obligation Energy Improvement Capital Loan Notes. The Department of Natural Resources approved East Marshall for incremental financing through the Iowa Energy Bank Program. \$337,000 of financing was approved for using geothermal in the high school addition and \$153,000 was approved for the middle school window replacement project. The loan will be repaid from the District's General Fund over a ten year period.
- Starting July 1, 2007, the Iowa Public Employees' Retirement System (IPERS) increased the IPERS contribution rate for both employees and employers. The employer rate increased 0.3% in 2007-08 and will continue to increase 0.3% each year through 2010-11. This will be an increasing cost for employee benefits.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

BASIC FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,778,835	67,398	3,846,233
Receivables:			
Property tax:			
Delinquent	51,709	0	51,709
Succeeding year	2,360,269	0	2,360,269
Income surtax	273,019	0	273,019
Accounts	519	0	519
Due from other governments	252,129	0	252,129
Inventories	0	20,910	20,910
Capital assets, net of accumulated depreciation (Note 4)	8,078,896	18,851	8,097,747
TOTAL ASSETS	14,795,376	107,159	14,902,535
LIABILITIES			
Accounts payable	374,925	2,516	377,441
Salaries and benefits payable	806,017	28,835	834,852
Accrued interest payable	42,545	0	42,545
Deferred revenue:			
Succeeding year property tax	2,360,269	0	2,360,269
Other	1,620	0	1,620
Unearned revenue	0	4,983	4,983
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	195,000	0	195,000
Energy loan notes	35,000	0	35,000
Early retirement	128,386	0	128,386
Compensated absences	50,455	0	50,455
Portion due after one year:			
General obligation bonds	4,810,000	0	4,810,000
Energy loan notes	455,000	0	455,000
Early retirement	504,722	0	504,722
TOTAL LIABILITIES	9,763,939	36,334	9,800,273
NET ASSETS			
Invested in capital assets, net of related debt	3,284,525	18,851	3,303,376
Restricted for:			
Beginning teacher mentoring	56	0	56
Additional teacher contract day	548	0	548
Market factor	5,361	0	5,361
Talented and gifted	2,493	0	2,493
Designated for special purposes	165,348	0	165,348
Management levy	84,890	0	84,890
Physical plant and equipment levy	321,335	0	321,335
Public education and recreation levy	41,270	0	41,270
Capital projects	602,197	0	602,197
Debt service	1,811	0	1,811
Other special revenue purposes	97,260	0	97,260
Unrestricted	424,343	51,974	476,317
TOTAL NET ASSETS	\$ 5,031,437	70,825	5,102,262

SEE NOTES TO FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,953,027	808,378	533,218	0	(1,611,431)	0	(1,611,431)
Special instruction	1,034,926	458,958	69,343	0	(506,625)	0	(506,625)
Other instruction	788,638	100,969	20,397	0	(667,272)	0	(667,272)
	<u>4,776,591</u>	<u>1,368,305</u>	<u>622,958</u>	<u>0</u>	<u>(2,785,328)</u>	<u>0</u>	<u>(2,785,328)</u>
Support services:							
Student services	278,505	0	0	0	(278,505)	0	(278,505)
Instructional staff services	270,381	0	0	0	(270,381)	0	(270,381)
Administration services	790,161	0	0	0	(790,161)	0	(790,161)
Operation and maintenance of plant services	801,232	0	0	0	(801,232)	0	(801,232)
Transportation services	537,506	2,206	5,622	0	(529,678)	0	(529,678)
	<u>2,677,785</u>	<u>2,206</u>	<u>5,622</u>	<u>0</u>	<u>(2,669,957)</u>	<u>0</u>	<u>(2,669,957)</u>
Non-instructional programs:							
Community service operations	5,737	0	0	0	(5,737)	0	(5,737)
Other expenditures:							
Facilities and acquisitions	100,365	0	4,118	165,256	69,009	0	69,009
Long-term debt interest	220,300	0	0	0	(220,300)	0	(220,300)
AEA flowthrough	231,586	0	231,586	0	0	0	0
Depreciation(unallocated)*	86,818	0	0	0	(86,818)	0	(86,818)
	<u>639,069</u>	<u>0</u>	<u>235,704</u>	<u>165,256</u>	<u>(238,109)</u>	<u>0</u>	<u>(238,109)</u>
Total governmental activities	8,099,182	1,370,511	864,284	165,256	(5,699,131)	0	(5,699,131)
Business-Type activities:							
Support services:							
Administration services	1,101	0	0	0	0	(1,101)	(1,101)
Operation and maintenance of plant services	2,979	0	0	0	0	(2,979)	(2,979)
Non-instructional programs:							
Nutrition services	334,221	182,650	149,843	0	0	(1,728)	(1,728)
Total business-type activities	<u>338,301</u>	<u>182,650</u>	<u>149,843</u>	<u>0</u>	<u>0</u>	<u>(5,808)</u>	<u>(5,808)</u>
Total	<u>\$ 8,437,483</u>	<u>1,553,161</u>	<u>1,014,127</u>	<u>165,256</u>	<u>(5,699,131)</u>	<u>(5,808)</u>	<u>(5,704,939)</u>
General Revenues & Transfers:							
General Revenues:							
Local tax for:							
General purposes					\$ 2,497,641	0	2,497,641
Capital outlay					174,579	0	174,579
Debt service					53,835	0	53,835
Local option sales and services tax					415,180	0	415,180
Unrestricted state grants					2,852,761	0	2,852,761
Unrestricted investment earnings					240,274	2,317	242,591
Gain on asset disposal					8,512	0	8,512
Other general revenues					97,635	0	97,635
Transfers					(210)	0	(210)
Total general revenues & transfers					<u>6,340,207</u>	<u>2,317</u>	<u>6,342,524</u>
Changes in net assets					641,076	(3,491)	637,585
Net assets beginning of year					4,390,361	74,316	4,464,677
Net assets end of year					<u>\$ 5,031,437</u>	<u>70,825</u>	<u>5,102,262</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 1,707,975	1,524,952	543,427	3,776,354
Receivables:				
Property tax				
Delinquent	40,968	0	10,741	51,709
Succeeding year	1,877,174	0	483,095	2,360,269
Income surtax	273,019	0	0	273,019
Accounts	519	0	0	519
Due from other governments	183,653	68,476	0	252,129
TOTAL ASSETS	\$ 4,083,308	1,593,428	1,037,263	6,713,999
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 76,914	290,602	7,409	374,925
Salaries and benefits payable	805,824	0	193	806,017
Deferred revenue:				
Succeeding year property tax	1,877,174	0	483,095	2,360,269
Income surtax	273,019	0	0	273,019
Other	1,620	0	0	1,620
Total liabilities	3,034,551	290,602	490,697	3,815,850
Fund balances:				
Reserved for:				
Construction	0	700,629	0	700,629
Debt service	0	0	1,811	1,811
Beginning teacher mentoring	56	0	0	56
Additional teacher contract day	548	0	0	548
Market factor	5,361	0	0	5,361
Talented and gifted	2,493	0	0	2,493
Designated for special purposes	165,348	0	0	165,348
Unreserved:				
Undesignated	874,951	602,197	544,755	2,021,903
Total fund balances	1,048,757	1,302,826	546,566	2,898,149
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,083,308	1,593,428	1,037,263	6,713,999

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 18)	\$ 2,898,149
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	8,078,896
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	273,019
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	2,481
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(42,545)
Long-term liabilities, including compensated absences general obligation bonds, early retirement and capital loan notes, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(6,178,563)
Net assets of governmental activites (page 16)	<u><u>\$ 5,031,437</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,227,627	415,180	503,976	3,146,783
Tuition	1,249,157	0	0	1,249,157
Other	160,537	132,340	199,740	492,617
State sources	3,438,412	9,653	403	3,448,468
Federal sources	235,223	161,456	3,800	400,479
Total revenues	7,310,956	718,629	707,919	8,737,504
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,928,017	0	142,826	3,070,843
Special instruction	1,034,926	0	0	1,034,926
Other instruction	620,122	0	169,632	789,754
	4,583,065	0	312,458	4,895,523
Support services:				
Student services	276,000	0	2,505	278,505
Instructional staff services	219,491	0	49,546	269,037
Administration services	781,441	0	18,569	800,010
Operation and maintenance of plant services	752,554	0	52,775	805,329
Transportation services	442,660	0	26,079	468,739
	2,472,146	0	149,474	2,621,620
Non-instructional programs				
Food service operations	0	0	3,635	3,635
Community service operations	0	0	5,738	5,738
	0	0	9,373	9,373
Other expenditures:				
Facilities acquisitions	0	4,626,083	30,392	4,656,475
Long-term debt:				
Principal	0	0	185,000	185,000
Interest and fiscal charges	0	0	213,226	213,226
AEA flowthrough	231,586	0	0	231,586
	231,586	4,626,083	428,618	5,286,287
Total expenditures	7,286,797	4,626,083	899,923	12,812,803
Excess(deficiency) of revenues over(under) expenditures	24,159	(3,907,454)	(192,004)	(4,075,299)
Other financing sources(uses):				
Sale of assets	800	0	10,000	10,800
Transfer in	250	0	342,525	342,775
Transfer out	0	(342,525)	(460)	(342,985)
Issuance of capital loan notes	0	490,000	0	490,000
Total other financing sources	1,050	147,475	352,065	500,590
Net change in fund balances	25,209	(3,759,979)	160,061	(3,574,709)
Fund balance beginning of year	1,023,548	5,062,805	386,505	6,472,858
Fund balance end of year	\$ 1,048,757	1,302,826	546,566	2,898,149

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 20) \$ (3,574,709)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 4,648,350	
Depreciation expense	(251,123)	
Loss on asset disposal	<u>(2,288)</u>	4,394,939

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (5,548)

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. (933)

Proceeds of long-term debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	\$ (490,000)	
Repaid	<u>185,000</u>	(305,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (7,074)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 147,016	
Compensated absences	<u>(7,615)</u>	139,401

Changes in net assets of governmental activities (page 17) \$ 641,076

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 67,398	2,481
Inventories	20,910	0
Capital assets, net of accumulated depreciation (Note 4)	18,851	0
TOTAL ASSETS	107,159	2,481
LIABILITIES		
Accounts payable	2,516	0
Salaries and benefits payable	28,835	0
Unearned revenue	4,983	0
TOTAL LIABILITIES	36,334	0
NET ASSETS		
Invested in capital assets	18,851	0
Unrestricted	51,974	2,481
TOTAL NET ASSETS	\$ 70,825	2,481

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 182,650	0
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	934
Services	1,101	0
Operation and maintenance of plant services:		
Services	2,562	0
Supplies	417	0
Total support services	4,080	934
Non-instructional programs:		
Food service operations:		
Salaries	153,628	0
Benefits	30,173	0
Services	188	0
Supplies	146,571	0
Depreciation	3,661	0
Total non-instructional programs	334,221	0
TOTAL OPERATING EXPENSES	338,301	934
OPERATING LOSS	(155,651)	(934)
NON-OPERATING REVENUES:		
State sources	4,931	0
Federal sources	144,912	0
Interest income	2,317	1
TOTAL NON-OPERATING REVENUES	152,160	1
Change in net assets	(3,491)	(933)
Net assets beginning of year	74,316	3,414
Net assets end of year	\$ 70,825	2,481

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 182,696	0
Cash received from miscellaneous	422	0
Cash payments to employees for services	(180,151)	(934)
Cash payments to suppliers for goods or services	(131,945)	0
Net cash used in operating activities	(128,978)	(934)
Cash flows from non-capital financing activities:		
State grants received	4,931	0
Federal grants received	122,996	0
Net cash provided by non-capital financing activities	127,927	0
Cash flows from investing activities:		
Interest on investments	2,317	1
Net increase(decrease) in cash and cash equivalents	1,266	(933)
Cash and cash equivalents at beginning of year	66,132	3,414
Cash and cash equivalents at end of year	\$ 67,398	2,481
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (155,651)	(934)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	21,916	0
Depreciation	3,661	0
Increase in inventories	(2,873)	0
Decrease in accounts payable	(149)	0
Increase in salaries and benefits payable	3,650	0
Increase in unearned revenue	468	0
Net cash used in operating activities	\$ (128,978)	(934)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 67,398	2,481

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$21,916.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

Exhibit J

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	<u>\$ 36,967</u>
Liabilities	
	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 36,967</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Revenues:	
Local sources:	
Interest income	\$ 1,631
Expenditures:	
Instruction:	
Scholarships awarded	1,800
Deficiency of revenues under expenditures	(169)
Other financing sources:	
Transfer in	210
Change in net assets	41
Net assets beginning of year	36,926
Net assets end of year	\$ 36,967

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The East Marshall Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Le Grand, Gilman, Laurel and Ferguson, Iowa, and the predominate agricultural territory in Marshall, Tama, Poweshiek and Jasper Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, East Marshall Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Marshall Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall, Tama, Poweshiek and Jasper Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not been served. Lunch account balances will be reimbursed or served lunches. Revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Iowa Schools Joint Investment Trust	<u>\$ 2,373,964</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 342,525
General	Management Levy	250
Private Purpose Trust	Expendable Trust	210
Total		<u>\$ 342,985</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 133,245	0	0	133,245
Less accumulated depreciation	110,733	3,661	0	114,394
Business-type activities capital assets, net	<u>\$ 22,512</u>	<u>(3,661)</u>	<u>0</u>	<u>18,851</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 88,754
Other	279
Support services:	
Operation and maintenance of plant	7,544
Transportation	67,728
	<u>164,305</u>
Unallocated depreciation	<u>86,818</u>
Total governmental activities depreciation expense	<u>\$ 251,123</u>
Business-type activities:	
Food service operations	<u>\$ 3,661</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,374	0	0	115,374
Construction in progress	1,292,282	4,532,145	0	5,824,427
Total capital assets not being depreciated	1,407,656	4,532,145	0	5,939,801
Capital assets being depreciated:				
Buildings	3,791,931	0	0	3,791,931
Land improvements	243,819	23,965	0	267,784
Machinery and equipment	2,061,097	92,240	43,078	2,110,259
Total capital assets being depreciated	6,096,847	116,205	43,078	6,169,974
Less accumulated depreciation for:				
Buildings	2,049,250	73,428	0	2,122,678
Land improvements	164,870	13,390	0	178,260
Machinery and equipment	1,606,426	164,305	40,790	1,729,941
Total accumulated depreciation	3,820,546	251,123	40,790	4,030,879
Total capital assets being depreciated, net	2,276,301	(134,918)	2,288	2,139,095
Governmental activities capital assets, net	\$ 3,683,957	4,397,227	2,288	8,078,896

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,190,000	0	185,000	5,005,000	195,000
Energy loan notes	0	490,000	0	490,000	35,000
Compensated absences	42,840	50,455	42,840	50,455	50,455
Early retirement	780,124	0	147,016	633,108	128,386
Total	\$ 6,012,964	540,455	374,856	6,178,563	408,841

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue July 1, 2005		
		Principal	Interest	Total
2008	4.50	% \$ 195,000	205,658	400,658
2009	4.50	200,000	196,883	396,883
2010	4.50	210,000	187,883	397,883
2011	4.38	220,000	178,433	398,433
2012-2016	3.60-4.38	1,230,000	742,326	1,972,326
2017-2021	3.80-4.00	1,510,000	481,228	1,991,228
2022-2025	4.05-4.20	1,440,000	152,163	1,592,163
Total		\$ 5,005,000	2,144,574	7,149,574

Energy Loan Notes

During the year ended June 30, 2007, the District issued capital loan notes for energy improvement projects. Details of the District's June 30, 2007 energy loan notes indebtedness, which will be paid from the General Fund, is as follows:

Year Ending June 30,	Energy loan notes dated February 1, 2007				
	Interest Rates		Principal	Interest	Total
2008	4.05	% \$	35,000	26,460	61,460
2009	4.05		44,000	18,428	62,428
2010	4.05		45,000	16,646	61,646
2011	4.05		47,000	14,823	61,823
2012	4.05		49,000	12,920	61,920
2013	4.05		50,000	10,935	60,935
2014	4.05		52,000	8,910	60,910
2015	4.05		54,000	6,804	60,804
2016	4.05		56,000	4,617	60,617
2017	4.05		58,000	2,349	60,349
Total			\$ 490,000	122,892	612,892

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The retiree may maintain their membership in the group health insurance. The District will pay the retiree a monthly payment beginning in September following retirement through the month when the retiree reaches 65 years of age of .01 times the salary(excluding Phase I, II and III money or extra curricular salary) received during the year prior to retirement. Should the retiree die before reaching age 65, the monthly payment will be continued to the retiree's surviving spouse until the retiree would have reached 65 years of age, or such payments may be computed to an agreed lump sum payable to the spouse or the retiree's estate. The employee shall not be on disability leave at the time of retirement. Early retirement benefits paid during the year ended June 30, 2007, totaled \$147,016. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue Fund, Management Levy Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$260,593, \$239,694, and \$232,097 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$51,093.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw.

East Marshall Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$231,586 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitment

The District has entered into various contracts totaling \$5,276,261 for the renovation of the school. As of June 30, 2007, costs of \$5,055,867 had been incurred against the contracts. The balance of \$220,394 remaining at June 30, 2007 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund	Fund				Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 4,888,557	184,967	5,073,524	4,888,070	4,888,070	185,454
State sources	3,448,468	4,931	3,453,399	3,409,485	3,409,485	43,914
Federal sources	400,479	144,912	545,391	822,900	822,900	(277,509)
Total revenues	8,737,504	334,810	9,072,314	9,120,455	9,120,455	(48,141)
Expenditures:						
Instruction	4,895,523	0	4,895,523	4,527,378	5,070,531	175,008
Support services	2,621,620	4,080	2,625,700	2,775,811	2,830,500	204,800
Non-instructional programs	9,373	334,221	343,594	389,000	389,000	45,406
Other expenditures	5,286,287	0	5,286,287	6,247,741	6,247,741	961,454
Total expenditures	12,812,803	338,301	13,151,104	13,939,930	14,537,772	1,386,668
Excess(Deficiency) of revenues over(under) expenditures	(4,075,299)	(3,491)	(4,078,790)	(4,819,475)	(5,417,317)	1,338,527
Other financing sources, net	500,590	0	500,590	338,676	338,676	161,914
Excess(Deficiency) of revenues and other financing sources over(under) expenditures	(3,574,709)	(3,491)	(3,578,200)	(4,480,799)	(5,078,641)	1,500,441
Balance beginning of year	6,472,858	74,316	6,547,174	6,363,279	6,363,279	183,895
Balance end of year	\$ 2,898,149	70,825	2,968,974	1,882,480	1,284,638	1,684,336

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2007, the District adopted one budget amendment increasing budgeted expenditures by \$597,842.

OTHER SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Public Education and Recreation Levy	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 79,016	104,762	318,057	40,928	542,763	664	543,427
Receivables:							
Property tax:							
Current year delinquent	5,874	0	3,278	442	9,594	1,147	10,741
Succeeding year	255,000	0	153,599	20,736	429,335	53,760	483,095
TOTAL ASSETS	\$ 339,890	104,762	474,934	62,106	981,692	55,571	1,037,263
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 0	7,309	0	100	7,409	0	7,409
Salaries and benefits payable	0	193	0	0	193	0	193
Deferred revenue:							
Succeeding year property tax	255,000	0	153,599	20,736	429,335	53,760	483,095
Total liabilities	255,000	7,502	153,599	20,836	436,937	53,760	490,697
Unreserved fund balances	84,890	97,260	321,335	41,270	544,755	1,811	546,566
TOTAL LIABILITIES AND FUND BALANCES	\$ 339,890	104,762	474,934	62,106	981,692	55,571	1,037,263

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	Manage-		Physical	Public			Other
	ment	Student	Plant and	Education and	Expend-	Total	Nonmajor
	Levy	Activity	Equipment	Recreation	able	Special	Governmental
			Levy	Levy	Trust	Revenue	Funds
REVENUES:							
Local sources:							
Local tax	\$ 275,562	0	153,814	20,765	0	450,141	503,976
Other	6,260	175,385	16,639	1,188	0	199,472	199,740
State sources	220	0	123	17	0	360	403
Federal sources	0	0	3,800	0	0	3,800	3,800
TOTAL REVENUES	282,042	175,385	174,376	21,970	0	653,773	707,919
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	142,826	0	0	0	0	142,826	142,826
Other instruction	0	169,632	0	0	0	169,632	169,632
Support services:							
Student services	797	1,708	0	0	0	2,505	2,505
Instructional staff	257	3,278	46,011	0	0	49,546	49,546
Administration services	16,569	2,000	0	0	0	18,569	18,569
Operation and maintenance							
of plant services	44,284	1,545	0	6,946	0	52,775	52,775
Student transportation	26,079	0	0	0	0	26,079	26,079
Non-instructional programs							
Food service operation	3,635	0	0	0	0	3,635	3,635
Community service operations	0	0	0	5,738	0	5,738	5,738
Other expenditures:							
Facilities acquisitions	0	0	30,392	0	0	30,392	30,392
Long-term debt:							
Principal	0	0	0	0	0	0	185,000
Interest and fiscal charges	0	0	0	0	0	0	213,226
TOTAL EXPENDITURES	234,447	178,163	76,403	12,684	0	501,697	899,923
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)							
EXPENDITURES	47,595	(2,778)	97,973	9,286	0	152,076	(192,004)
OTHER FINANCING SOURCES (USES):							
Sale of assets	0	0	10,000	0	0	10,000	10,000
Transfer in	0	0	0	0	0	0	342,525
Transfer out	(250)	0	0	0	(210)	(460)	(460)
Total other financing sources (uses)	(250)	0	10,000	0	(210)	9,540	352,065
NET CHANGE IN FUND BALANCES	47,345	(2,778)	107,973	9,286	(210)	161,616	160,061
FUND BALANCE BEGINNING OF YEAR	37,545	100,038	213,362	31,984	210	383,139	386,505
FUND BALANCE END OF YEAR	\$ 84,890	97,260	321,335	41,270	0	544,755	546,566

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 5,918	784	2,028	4,674
HS Vocal	5,868	4,787	6,178	4,477
Spec MS Vocal	32	445	247	230
HS Band	1,810	13,965	14,062	1,713
Band Fundraising	2,712	10,009	12,721	0
HS Band Resale	51	0	51	0
Spec MS Band	828	3,460	0	4,288
MS Band Resale	241	800	1,041	0
Athletics	21,667	4,816	2,035	24,448
Athletic Uniforms	6,602	5,250	4,843	7,009
Spec MS Athletics	10,367	3,511	1,926	11,952
Golf	0	708	708	0
Boys Basketball	165	4,671	4,836	0
Football	1,067	15,356	16,423	0
Baseball	0	4,873	4,873	0
Wrestling	220	3,242	3,462	0
Alumni Basketball Uniforms	0	472	0	472
Girls BB	165	4,671	4,836	0
Volleyball	400	2,644	3,044	0
Softball	622	2,828	3,450	0
Girls Track	0	15	15	0
Kids Benefit	777	1,152	1,374	555
Student Pop	0	15,260	15,260	0
Interest	0	4,752	4,752	0
Middle School Fine Arts	11,596	3,500	7,496	7,600
MS Yearbook	510	1,890	1,899	501
Spec MS Art	414	775	0	1,189
MS Student Council	3,790	3,657	5,022	2,425
MS Activities	967	0	698	269
High School Fine Arts	405	750	0	1,155
Class of 2007	3,140	50	1,850	1,340
Class of 2008	3	11,113	8,182	2,934
Class of 2009	22	29	14	37
Class of 2010	159	50	172	37
HS Yearbook	4,946	10,345	9,844	5,447
Spec HS Art	2,694	1,780	3,620	854
Silk Screening	359	2,789	3,148	0
Cheerleaders	946	1,915	2,861	0
FFA	914	10,829	8,189	3,554
National Honor Society	4,163	3,113	0	7,276
HS Student Council	3,233	2,076	2,485	2,824
HS Activities	0	405	405	0
Vending Machine	2,265	11,848	14,113	0
Total	\$ 100,038	175,385	178,163	97,260

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 3,146,783	3,159,955	3,202,645	2,778,213
Tuition	1,249,157	1,084,449	815,148	655,870
Other	492,617	524,229	279,311	295,208
State sources	3,448,468	3,581,775	3,159,379	3,052,978
Federal sources	400,479	228,858	272,939	190,579
Total	<u>\$ 8,737,504</u>	<u>8,579,266</u>	<u>7,729,422</u>	<u>6,972,848</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 3,070,843	2,738,703	2,575,286	2,704,570
Special instruction	1,034,926	889,705	821,571	946,698
Other instruction	789,754	722,381	677,104	608,756
Support services:				
Student services	278,505	253,518	250,249	239,395
Instructional staff services	269,037	328,213	296,343	256,506
Administration services	800,010	800,782	779,341	674,193
Operation and maintenance of plant services	805,329	944,385	664,386	664,676
Transportation services	468,739	468,872	503,504	470,553
Central services	0	0	0	1,396
Non-instructional programs				
Food service	3,635	2,354	2,354	3,364
Community service	5,738	3,470	10,904	20,289
Other expenditures:				
Facilities acquisitions	4,656,475	1,289,281	86,941	156,383
Long-term debt:				
Principal	185,000	190,000	0	0
Interest and fiscal charges	213,226	182,405	0	0
AEA flow-through	231,586	218,952	217,704	221,438
Total	<u>\$ 12,812,803</u>	<u>9,033,021</u>	<u>6,885,687</u>	<u>6,968,217</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (NON-CASH)	10.550	FY 07	\$ 21,916
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	18,705
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	104,291
			<u>122,996</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-G	<u>69,465</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 07	<u>2,485</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE LIFE AND SAFETY GRANT)	84.215	FY 07	3,800
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 06	288,544
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 07	161,456
			<u>453,800</u>
TECH - PREP EDUCATION	84.243	FY 07	<u>102</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	<u>1,022</u>
EDUCATION TECHNOLOGY STATE GRANTS	84.318	FY 07	<u>180</u>
SPECIAL EDUCATION - STATE PERSONNEL DEVELOPMENT	84.323	FY 07	<u>27,305</u>
ENGLISH LANGUAGE ACQUISITION GRANTS	84.365	FY 07	<u>238</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>27,482</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	<u>6,097</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>30,806</u>

EAST MARSHALL COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 07	38,537
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	8,124
TOTAL			\$ 810,555

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the East Marshall Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 22, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Marshall Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of East Marshall Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Marshall Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects East Marshall Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of East Marshall Community School District's financial statements that is more than inconsequential will not be prevented or detected by East Marshall Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by East Marshall Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Marshall Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

East Marshall Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit East Marshall Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2008

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
East Marshall Community School District

Compliance

We have audited the compliance of East Marshall Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. East Marshall Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of East Marshall Community School District's management. Our responsibility is to express an opinion on East Marshall Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Marshall Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on East Marshall Community School District's compliance with those requirements.

In our opinion, East Marshall Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of East Marshall Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered East Marshall Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Marshall Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

East Marshall Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit East Marshall Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2008

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.215 - Fund for the Improvement of Education (Fire Life and Safety Grant)
 - CFDA Number 84.215 - Fund for the Improvement of Education (Iowa Demonstration Grant)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Marshall Community School District did not qualify as a low-risk auditee.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- II-B-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

We noted during our audit that landscaping supplies were purchased from the Middle School Student Council account. Expenditures like this would be more appropriately run through the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL).

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

Response - We will monitor expenditures from the Student Activity Fund more closely in the future to avoid noncompliance.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.215: Fund for the Improvement of Education (Fire Life Safety Grant)
CFDA Number 84.215: Fund for the Improvement of Education (Iowa Demonstration Grant)
Federal Award Year: 2006 & 2007
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - No business transactions between the District and District Officials or employees were noted.
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.